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Report Highlights:

Paraguayan beef exports for 2012 are forecast to rebound at 300,000 tons, similar to the record of 2010. As a result of the expansion of the local herd in the past few years, beef output is expected to increase, allowing meat packers to take advantage of meeting an expected larger foreign demand. Business has been very profitable in the last several years, encouraging vast investment at the ranch level contributing to herd expansion. The cattle stock is forecast at a record 13.6 million head by the end of 2012. The government and some in the private sector expect the herd to expand to reach 20 million by 2020. Domestic beef consumption is expected to continue growing.

Given the increased importance of the Paraguayan livestock sector, this is the first Annual Paraguay Livestock

Report from post.

Executive Summary:

- Cattle slaughter and beef production are expected to rebound in 2012, after a smaller output the previous year affected by the 2009/10 drought, and to an expanding herd
- Good profitability encourages cattlemen to invest strongly in their operations. New production areas are open, and additional producers enter the business
- The quality of cattle improved considerably in the past years, as well as the country's sanitary status
- Contacts indicate that beef exports will rebound in 2012 because a larger local beef output and strong foreign markets
- Chile, with boneless fresh beef, and the Russian Federation, with boneless frozen beef, are forecast to continue to be Paraguay's main markets
- Domestic consumption is forecast to continue to grow as a reflection of the country's economic growth

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Production:

Paraguayan beef production is expected to rebound in 2012, and reach 520,000 tons after reduced slaughter in 2011 due to the 2009/10 drought. Producers are retaining more cattle now because of good pasture conditions, and heavy investment in the sector which has been very profitable in the past several years. A larger number of females are being retained to build or expand new herds. A good sanitary status, a strong foreign demand and limited supply from third country historic suppliers are providing great opportunities to the Paraguayan livestock/beef sector. The herd is expected to continue to grow in the next several years, making available larger quantities of cattle for slaughter.

Cattle slaughter is forecast at 2.3 million head in 2012, slightly higher than the previous two years. The local official sanitary service publishes the number of cattle slaughtered in plants for export and in smaller plants for the domestic market. Contacts indicate there is an additional unregistered slaughter on farm and in small plants throughout the country which lack official inspection, but it is estimated in the PSDs.

There are 10 large local plants authorized for export, with high sanitary standards. These plants are annually inspected by several foreign sanitary services which import beef from Paraguay. The largest four companies account for 50-55 percent of total exports. Most meat packing houses are locally owned, while three are owned/managed by Brazilian companies. Contacts estimate that beef plants are currently operating at 60-70 percent capacity. There is no significant investment announced, except for some expansion of existing plants in adding capacity for slaughter and cold storage.

After several years of good returns, local export beef companies are suffering an economic crunch as a result of the stronger value of the local currency and high cattle prices. Despite record FOB prices, exporters indicate that in the first semester of 2011 the local currency, Guarani, has gained almost 20 percent value vis-à-vis the US dollar. Local prices (in dollar terms) of fed steers are nowadays the highest in the region at US\$2.20 per live kilo, while fed steers in Brazil, Uruguay and Argentina are roughly at US\$2.07 per live kilo. A year ago, fed steers

were bringing US\$1.53 per live kilo and in August 2007 US\$0.98 per live kilo. The shortage of fed cattle in 2011 and the need of meat packers to operate at the highest capacity level possible, has made cattle prices remain high.

The strong driver of the expansion of the sector is the growing export business, which represents about 60 percent of the total local beef supply. Paraguay's average export beef price in 2005 was US\$1767 per ton, while the average of the first seven months of 2011 was US\$4845 per ton. The low-cost, grass fed production, inexpensive land prices compared to neighboring countries, the possibility of expanding into new production areas, and the opportunity to significantly improve productivity (especially at cow-calf operations) attract many investors from Paraguay, Brazil, Uruguay, and Europe. Investments enjoy good returns from the operation and excellent returns on real estate land values, which have been increasing steadily in the past several years.

Some 500,000 hectares were converted from natural grassland into highly productive sub-tropical pastures in the Chaco (western) region in 2010-11. In this area there are approximately 4 million additional hectares which can be upgraded with these types of pastures. In the eastern part of the country, where crop production is expanding rapidly, producers also increased the number of cattle, producing more intensively in fewer hectares. The use of grain, and sorghum and corn silage is gaining popularity among larger producers. Fed steers for the export market are typically marketed at 450-470 live kilos, having gained the last 100-120 kilos on pastures with some sort of grain supplementation. Feedlot production as known in the US is barely seen, as production costs are significantly higher than grass fed production. As long as there is vast land that can still be put into production, the development of feedlots will be limited. Local producers indicate that most of their beef is produced under natural systems.

Apart from breaking new land into production, producers are investing heavily in better cattle genetics (moving away from straight Brahman into crosses like Brangus and Braford's), there is a wide use of artificial insemination, machinery and equipment (especially for feeding), fences, roads, water, etc. Paraguay has a policy of zero deforestation in the eastern region and some 40 percent of the land has to remain as natural reserve in the western region. Government officials and the private sector project that Paraguay's cattle herd will nearly double from its current 13 million head of cattle to 20 million by around 2020.

There are approximately 130,000 cattlemen in the country of which 85 percent are family producers with an average of 25 head. Several thousand new producers enter the business every year. Roughly 20,000 producers represent the core of the sector, with 2,500 of them owning herds of over 1,000 head and accounting for 60 percent of Paraguay's total herd. Current prices of breeding cows is about US\$1000, and feeder cattle are selling at about US\$2.20 per kilo live weight.

Based on the OIE (The World Organization of Animal Health), Paraguay's sanitary status is free of foot and mouth disease with vaccination and has an "insignificant risk" (the lowest possible) for BSE. Paraguay has a cattle traceability program called SITRAP, by which approximately 750 producers, accounting for more than 2.2 million head of cattle, certify the production process at the farm level. This program is required for the exportation of beef to the European Union. Paraguay's animal health service continues working with USDA to be able to export fresh and thermoprocessed beef to that market. Local exporters believe that the US would be an interesting market especially for fresh beef, and being eligible to export to the US would facilitate the opening of other markets as well. Before the end of this year Paraguay will inaugurate its first biosecurity laboratory by which it will allow detection and rapid response to any potential disease outbreak.

Poultry production is expanding significantly as consumption is growing rapidly. Pork is also growing but the volume is still very small. Paraguay is an important exporter of corn and soybeans and has the potential to eventually supply a growing feed demand from the local livestock sector.

Contacts indicate that the government does not have a specific policy for the cattle/beef sector. Knowing of its importance, it is the country's second largest export product, the government supports the sector through a solid sanitary service, and allowing it to operate under a free environment.

Consumption:

Despite higher export beef prices, the domestic beef consumption is projected to keep increasing in 2012, as most contacts project continued growth of the local economy. As local beef production is mostly export driven, expected larger beef output and increased export opportunities will make available more product for the local market.

The most popular cuts are ribs and flank, typically demanded for weekend barbecues. Also in great demand are forequarter cuts and bones with flesh from the deboning process of export plants. Most contacts estimate per capita beef consumption in 2010 at 30-32 kilos.

Brangus breeders have recently made an agreement with a local meat packer and one of the largest local supermarket chains to market branded premium beef. Although the initial volume is small, they expect it to grow in the near future.

Poultry consumption has been growing significantly in the past few years, reaching 13 kilos per capita. This is a result of beef prices increasing significantly and changes in eating habits. Since early 2004, inflation increased 64 percent, poultry prices 67 percent, and beef prices 145 percent. High beef prices are primarily explained by stronger beef export prices.

Domestic beef prices in the past few months have come down somewhat because the demand in Chile, one of Paraguay's main markets, has weakened

Trade:

Paraguayan beef exports for 2012 are projected at 300,000 tons, showing a recovery since 2010 as exporters expect a larger beef output and increased foreign demand. Paraguay ranked #13 as the world's largest beef exporter in 2010, with 296,000 tons (carcass weight equivalent) and US\$880 million. Paraguay has more than 70 markets open and is working to opening more.

The main markets for 2012 are forecast to be Chile for chilled beef and the Russian Federation for frozen beef. Together they account for roughly 70-75 percent of Paraguayan beef exports. Chile typically buys the whole carcass in 18-20 boneless cuts. Lately Paraguayan beef is facing stronger competition from other suppliers. Exports to the Russian Federation are primarily robbed fore, trimmings, round cuts and chuck and blade. In August 2011, the Russian authorities stopped some shipments of two Paraguayan plants because of E. coli, delisting these plants until further notice.

The Venezuelan market has grown in importance in the past few years. Exports can go under government or private purchases and cuts can vary with shipments. Israel is also expected to continue to be an important market for Kosher boneless fore quarters. The European Union represents a small volume of export but high

prices. Paraguay is expected to fulfill its 1,000 ton Hilton Quota primarily with rump and loin. This EU will also take a similar volume of fresh beef outside the quota.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle Paraguay	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks		12,450		12,700		13,200
Dairy Cows Beg. Stocks		0		0		0
Beef Cows Beg. Stocks		5,500		5,600		5,800
Production (Calf Crop)		2,700		2,800		3,000
Intra-EU Imports		0		0		0
Other Imports		0		0		0
Total Imports		0		0		0
Total Supply		15,150		15,500		16,200
Intra EU Exports		0		0		0
Other Exports		0		0		0
Total Exports		0		0		0
Cow Slaughter		900		800		950
Calf Slaughter		0		0		0
Other Slaughter		1,300		1,200		1,350
Total Slaughter		2,200		2,000		2,300
Loss		250		300		300
Ending Inventories		12,700		13,200		13,600
Total Distribution		15,150		15,500		16,200

Not Official USDA Data

Meat, Beef and Veal Paraguay	2010		2011		2012	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	0	2,200	0	2,000		2,300
Beginning Stocks	0	0	0	0		0
Production	550	490	570	460		520
Intra-EU Imports	0	0	0	0		0
Other Imports	1	1	1	1		1
Total Imports	1	1	1	1		1
Total Supply	551	491	571	461		521
Intra EU Exports	0	0	0	0		0
Other Exports	296	296	310	250		300
Total Exports	296	296	310	250		300
Human Dom. Consumption	255	195	261	211		221
Other Use, Losses	0	0	0	0		0

Total Dom. Consumption	255	195	261	211		221
Ending Stocks	0	0	0	0		0
Total Distribution	551	491	571	461		521

Not Official USDA Data